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Umzumbe Local Municipality
Annual Financial Statements
for the year ended 30 June 2010

Auditor General
Issued 31 August 2010

General Information

Legal form of entity	Municipality
Mayoral committee	
Executive Mayor	Gumede S.T.
Councillors	Dlamini N.Y.
	Ngcobo S.R.
	Msomi D.K.
	Ngcobo M.R.
	Mqadi M.R.
	Nkomo. P.Z.
	Mchunu G.M.
	Peters T.L.
	Ngcongo M.J.
	Mkhize J.M.
	Mntambo L.M.
	Chiliza Z.T.
	Mbhele K.B.M.
	Luthuli M.Z.
	Shozi D.Z.
	Shozi Z.B.
	Sithole S.C.
	Shozi M.P.
	Duma Y.L.
	Zuma S.M.
	Chiliza M.A.
	Dlungwana M.A.
	Shezi C.L.
	Ngcobo J.P.
	Chiliza S.D.
	Doncabe K.S.
	Khuzwayo T.M.
	Luthuli B.B.
	Shozi B.N.
	Ngcobo N.I.
	Ngcobo A.T.S.
	Qumbisa E..
	Mpisane C.N.
	Dlamini K.O.
	Shezi M.T.
	Ngcobo L.M.R.
Accounting Officer	Mbhele TB (Resigned 31 July 2010)
Chief Finance Officer (CFO)	Audan K.
Accounting Officer	Ngesi MJ (DR) (Appointed 1 August 2010)
Registered office	P.O. Box 561 Hibberdeen 4220

General Information

Business address	P.O. Box 561 Hibberdeen 4220
Bankers	ABSA Bank Limited
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's Chief Financial Officer.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 27, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

Ngesi MJ (DR) (Appointed 1 August 2010)
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Operating lease asset	3	47 112	-
Other receivables	4	248 166	129 270
VAT receivable	5	5 951 605	3 051 044
Consumer debtors	6	595 478	-
Cash and cash equivalents	7	19 786 493	9 777 053
		26 628 854	**12 957 367**
Non-Current Assets			
Property, plant and equipment	2	84 316 397	58 441 227
Total Assets		**110 945 251**	**71 398 594**
Liabilities			
Current Liabilities			
Trade and other payables	11	6 514 803	3 971 011
Unspent conditional grants and receipts	9	15 796 416	8 886 763
Provisions	10	979 985	806 672
Bank overdraft	7	-	441 670
		23 291 204	**14 106 116**
Total Liabilities		**23 291 204**	**14 106 116**
Net Assets		**87 654 047**	**57 292 478**
Net Assets			
Accumulated surplus		87 654 047	57 292 478

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	12	771 400	-
Interest received		1 558 947	963 629
Government grants & subsidies	13	79 405 298	62 384 114
Other income		1 231 369	653 835
Total Revenue		**82 967 014**	**64 001 578**
Expenditure			
Employee related costs	15	(13 751 329)	(11 656 187)
Remuneration of councillors	16	(8 092 320)	(7 636 820)
Depreciation and amortisation		(3 626 133)	(3 254 307)
Impairment loss		(3 020 210)	-
Finance costs		-	(8 579)
Debt impairment		(94 139)	-
Repairs and maintenance		(459 048)	(114 874)
Community participation		(1 128 184)	(4 404 985)
General Expenses	14	(23 858 967)	(27 596 691)
Total Expenditure		**(54 030 330)**	**(54 672 443)**
Loss on disposal of assets		(302 345)	-
Surplus for the year		**28 634 339**	**9 329 135**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	48 279 724	48 279 724
Adjustments		
Prior year adjustments (Note 24)	3 076 329	3 076 329
Reallocation of balance	93 340	93 340
Assets under construction	(3 486 050)	(3 486 050)
Balance at 01 July 2008	**47 963 343**	**47 963 343**
Changes in net assets		
Surplus for the year	9 329 135	9 329 135
Total changes	9 329 135	9 329 135
Opening balance as previously reported	58 018 581	58 018 581
Adjustments		
Prior adjustment on Accumulated depreciation (Note 24)	1 541 548	1 541 548
Prior year error (Note 24)	(732 766)	(732 766)
Prior year adjustments (Note 24)	192 345	192 345
Balance at 01 July 2009	**59 019 708**	**59 019 708**
Changes in net assets		
Surplus for the year	28 634 339	28 634 339
Total changes	28 634 339	28 634 339
Balance at 30 June 2010	**87 654 047**	**87 654 047**

Note(s)

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Cash receipts for equittable share, conditional grants and from debtors		79 130 320	66 543 232
Interest received		-	963 633
		79 130 320	67 506 865
Payments			
Finance costs		-	(8 579)
Cash paid to suppliers and employees		(37 619 148)	(44 524 051)
		(37 619 148)	(44 532 630)
Net cash flows from operating activities	17	**41 511 172**	**22 974 235**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(31 136 407)	(21 550 413)
Proceeds from sale of property, plant and equipment	2	134 440	-
Other cash item		(58 095)	-
Net cash flows from investing activities		**(31 060 062)**	**(21 550 413)**
Net increase/(decrease) in cash and cash equivalents		**10 451 110**	**1 423 822**
Cash and cash equivalents at the beginning of the year		9 335 383	7 911 561
Cash and cash equivalents at the end of the year	7	**19 786 493**	**9 335 383**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:
Infrastructure

• Leveling Drains on roads	20
• Roads construction	10
• Road gravelling	10

1.1 Property, plant and equipment (continued)

• Borehole pump	15
Other	
• Buildings	30
• Furniture and Fittings	8
• Motor Vehicles	5
• Computer equipment	5
Plant and Equipment	
• Tip Trailer	15
• Furrow Plough	5
• Harrow Offset	5
• Tractors	10
• Hydroponic Tunnel	10
• Grader	15
• TLB	15

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.2 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable

Accounting Policies

1.2 Intangible assets (continued)

limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 years

1.3 Financial instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1.4 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.5 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

The defined benefit obligation, the related current cost and where applicable, past-service cost, is determined by using the Projected Unit Credit Method. A portion of the actuarial gains and losses is recognized as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previous reporting period exceed greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
- 10% of the fair value of the plan assets.

The portion of the actuarial gains and losses to be recognized is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of the employees participating in the plan. Unvested past-service costs are recognized as an expense in the Statement of Financial Performance.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing a retirement benefits for the councilors, because they are now getting a total package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

The municipality also contributes in a Group Life Scheme for all employees in the event of their death other than section 57 employees.

1.6 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.7 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.
Revenue from unconditional grants are recognised immediately upon receipt.
Revenue from Tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

Rates

Revenue from rates is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Conditional grants and receipts

Conditional grants, donations and funding are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Accounting Policies

1.8 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.9 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.10 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.11 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Irregular expenditure

Irregular expenditure is an expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), Municipal Systems Act (Act No. 32 of 2000), Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes an unauthorized expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.14 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.15 Internal reserves

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred

Accounting Policies

1.15 Internal reserves (continued)

over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

2. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	-	-	-	2 003 030	(342 151)	1 660 879
Plant and machinery	-	-	-	3 711 021	(1 103 834)	2 607 187
Furniture and fixtures	-	-	-	1 522 649	(572 881)	949 768
Motor vehicles	-	-	-	2 383 622	(1 011 596)	1 372 026
Office equipment	-	-	-	782 855	(297 541)	485 314
IT equipment	-	-	-	1 416 831	(585 724)	831 107
Infrastructure	-	-	-	16 038 374	(3 075 781)	12 962 593
Community	-	-	-	36 176 636	(2 090 333)	34 086 303
Solid Waste Disposal	37 794	(3 191)	34 603	-	-	-
Dwellings	431 776	(62 766)	369 010	-	-	-
Computer Equipment	1 462 364	(628 159)	834 205	-	-	-
Furniture & Office Equipment	2 082 813	(859 068)	1 223 745	-	-	-
Non Residential Dwellings	46 301 678	(7 380 968)	38 920 710	-	-	-
Transport Assets	2 331 734	(463 381)	1 868 353	-	-	-
Machinery & Equipment	3 424 520	(1 099 004)	2 325 516	-	-	-
Roads	26 309 371	(3 173 994)	23 135 377	-	-	-
Assets under construction	15 604 878	-	15 604 878	3 486 050	-	3 486 050
Total	**97 986 928**	**(13 670 531)**	**84 316 397**	**67 521 068**	**(9 079 841)**	**58 441 227**

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Donations	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	1 660 879	-	-	(1 660 879)	-	-	-	-	-
Plant and machinery	2 607 187	-	-	(2 607 187)	-	-	-	-	-
Furniture and fixtures	949 768	-	-	(949 768)	-	-	-	-	-
Motor vehicles	1 372 026	-	-	(1 372 026)	-	-	-	-	-
Office equipment	485 314	-	-	(485 314)	-	-	-	-	-
IT equipment	831 107	-	-	(831 107)	-	-	-	-	-
Infrastructure	12 962 593	-	-	(12 962 593)	-	-	-	-	-
Community	34 086 303	-	-	(34 086 303)	-	-	-	-	-
Solid Waste Disposal	-	-	-	36 304	-	-	(1 701)	-	34 603
Dwellings	-	188 000	-	216 513	-	-	(35 503)	-	369 010
Computer Equipment	-	205 840	(81 185)	911 153	73 127	-	(274 730)	-	834 205
Furniture & Office Equipment	-	129 987	(33 737)	1 332 968	66 619	-	(272 092)	-	1 223 745
Non Residential Dwellings	-	10 088	-	40 779 807	15 652	2 549 632	(1 492 045)	(2 942 424)	38 920 710
Transport Assets	-	298 195	(321 072)	1 870 608	270 220	-	(249 598)	-	1 868 353
Machinery Equipment	-	9 800	(792)	2 591 782	673	-	(275 947)	-	2 325 516
Roads	-	-	-	8 611 642	-	15 626 037	(1 024 516)	(77 786)	23 135 377
Assets Under Construction	3 486 050	30 294 497	-	-	-	(18 175 669)	-	-	15 604 878
	58 441 227	**31 136 407**	**(436 786)**	**1 395 600**	**426 291**	**-**	**(3 626 132)**	**(3 020 210)**	**84 316 397**

2. **Property, plant and equipment (continued)**

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Depreciation	Total
Buildings	1 588 871	136 875	(64 867)	1 660 879
Plant and machinery	2 427 512	510 195	(330 520)	2 607 187
Furniture and fixtures	598 372	513 335	(161 939)	949 768
Motor vehicles	1 785 481	-	(413 455)	1 372 026
Office equipment	253 428	337 317	(105 431)	485 314
IT equipment	637 734	414 132	(220 759)	831 107
Infrastructure	11 281 691	2 704 399	(1 023 497)	12 962 593
Community	18 085 981	16 934 160	(933 838)	34 086 303
Assets Under construction	3 486 050	-	-	3 486 050
	40 145 120	**21 550 413**	**(3 254 306)**	**58 441 227**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed, certain property, plant and equipment with a carrying value of R 537 160 (2009: R -) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

Roads	537 160	-

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The process of componentising assets has begun and most assets have been componentised to date.

The date at which full compliance with GRAP 17 is expected, is 30 June 2011.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for

2. Property, plant and equipment (continued)
inspection at the registered office of the municipality.

3. Operating lease asset

Current asset	47 112	-

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference of R47,112 between the amounts recognised as an expense and the contractual payments has been recognised as an operating lease asset.

4. Other receivables

Sundry debtors	227 712	96 578
Interest	20 454	32 692
Rei Management	2 379 003	2 379 003
Rei Management (Provision for Bad debts)	(2 379 003)	(2 379 003)
	248 166	**129 270**

5. VAT receivable

VAT	5 951 605	3 051 044

6. Consumer debtors

Gross balances		
Rates	689 617	-
Less: Provision for debt impairment		
Rates	(94 139)	-
Net balance		
Rates	595 478	-
Rates		
Current (0 -30 days)	106 047	-
61 - 90 days	128 566	-
91 - 120 days	128 567	-
121 - 365 days	232 298	-
	595 478	**-**
Reconciliation of debt impairment provision		
Contributions to provision	(94 139)	-

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2010	2009
Bank balances	10 211 274	200 001
Short-term deposits	9 575 219	9 577 052
Bank overdraft	-	(441 670)
	19 786 493	**9 335 383**
Current assets	19 786 493	9 777 053
Current liabilities	-	(441 670)
	19 786 493	**9 335 383**

The short-term investments deposits are attributable to unspent conditional grants. The short-term investments are held in First National Bank Ltd in Port Shepstone.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	30 June 2009		30 June 2010	30 June 2009	
ABSA BANK LTD - Port Shepstone - 40-7276-2850	10 778 447	2 597 726	-	9 976 062	(441 670)	-
ABSA Housing Account - Port Shepstone - 40-7278-0715	108 185	100 000	-	108 185	100 000	-
ABSA MIG Account - Port Shepstone 40 - 7277-6506	108 185	100 000	-	108 185	100 000	-
Total	**10 994 817**	**2 797 726**	**-**	**10 192 432**	**(241 670)**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

8. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2010

	Government grant reserve	Total
Opening balance	29 216 191	29 216 191

Ring-fenced internal funds and reserves within accumulated surplus - 2009

	Government grant reserve	Total
Opening balance	25 730 139	25 730 139
Assets under construction	3 486 052	3 486 052
	29 216 191	**29 216 191**

9. Unspent conditional grants and receipts

Movement during the year

	2010	2009
Balance at the beginning of the year	8 886 763	19 492 545
Additions during the year	38 263 595	15 102 581
Income recognition during the year	(31 353 942)	(25 708 363)
	15 796 416	**8 886 763**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

10. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	806 672	979 985	(285 761)	(520 911)	979 985

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	466 812	806 672	(35 204)	(431 608)	806 672

11. Trade and other payables

	2010	2009
Trade payables	6 490 158	3 788 287
Other payables	24 645	182 724
	6 514 803	**3 971 011**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

12. Property rates

Rates received

Property rates	771 400	-

With effect from 1 July 2009, the Municipality has implemented property rates.

13. Government grants and subsidies

Equitable share	48 056 023	37 377 764
MIG	27 959 824	21 051 689
MSIG	735 000	735 000
Low Cost Housing Grant	591 274	250 148
Financial Management Grant	1 037 705	598 322
MAP	299 768	313 802
LED strategy	86 991	-
Youth Advisory Centre	108 667	28 333
Governance grant	21 052	-
Capacity support grant	18 565	216 241
Burial Support	16 954	17 698
Property rates	6 679	143 125
Water drought relief	6 424	1 052 502
CDW	854	-
DOT school crossing guards	-	10 020
IDP	51 666	-
Governance structures and HR systems and PP	307 852	250 000
Community workers development	-	28 664
Project consolidate	100 000	310 806
	79 405 298	**62 384 114**

14. General expenses

Advertising	146 805	319 437
Auditors remuneration	453 379	385 685
Bank charges	81 806	81 036
Consulting and professional fees	863 909	206 684
Consumables	78 670	81 153
Entertainment	154 099	198 825
Insurance	597 577	262 551
Community development and training	253 266	416 144
Conferences and seminars	38 018	159 878
Lease rentals on operating lease	179 415	150 290
Marketing	69 090	23 396
Magazines, books and periodicals	1 128	1 910
Motor vehicle expenses	655 258	910 081
Printing and stationery	448 652	272 385
Security (Guarding of municipal property)	107 471	-
Telephone and fax	1 232 037	1 428 872
Training	208 521	270 317
Travel - local	798 315	103 583
Electricity	90 095	15 961
Free basic services (Electricity & Water)	5 232 161	5 593 150
Uniforms	9 483	34 479
Tourism development	697 599	532 537
Projects expenditure	6 536 428	9 279 723
Other expenses	4 925 785	6 868 614
	23 858 967	**27 596 691**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

15. Employee related costs

Basic	6 669 514	5 606 349
Bonus	613 297	339 584
Medical aid - company contributions	419 294	348 063
UIF	66 245	65 980
SDL	109 595	122 196
Leave pay provision charge	285 761	851 490
Post-employment benefits - Pension - Defined contribution plan	909 140	1 310 254
Travel, motor car, accommodation, subsistence and other allowances	3 692 310	2 087 427
Overtime payments	324 656	324 111
Acting allowances	92 027	-
Housing benefits and allowances	90 369	-
Other expenses	479 121	600 733
	13 751 329	**11 656 187**

Remuneration of Municipal Manager

Annual Remuneration	349 775	331 398
Car Allowance, Entertainment and Telephone Allowance	223 268	202 201
Performance Bonuses	39 800	-
Housing Allowances	55 233	55 233
Other	12 644	-
	680 720	**588 832**

Remuneration of Chief Financial Officer

Annual Remuneration	358 450	221 799
Car, Entertainment and Telephone Allowances	89 920	155 515
Performance Bonuses	-	34 310
Housing Allowances	-	3 610
Other	3 764	-
	452 134	**415 234**

Remuneration Corporate Services Director

Annual Remuneration	421 287	331 182
Car, Entertainment and telephone Allowances	123 519	111 263
Performance Bonuses	30 324	-
Other	11 728	-
	586 858	**442 445**

Remuneration of Technical Services Director

Annual Remuneration	306 875	267 501
Car, Entertainment and Telephone Allowances	87 291	94 221
Performance Bonuses	30 324	-
Housing Allowances	45 696	71 478
Other	3 504	-
	473 690	**433 200**

Figures in Rand	2010	2009

15. Employee related costs (continued)

Remuneration of Social & Community Services Director

Annual Remuneration	221 127	-
Car Allowance	134 015	-
Other	2 654	-
	357 796	**-**

16. Remuneration of councillors

Councillors	8 092 320	7 636 820

17. Cash generated from operations

Surplus	28 634 339	9 329 135
Adjustments for:		
Depreciation and amortisation	3 626 133	3 254 307
Loss on sale of assets	302 345	-
Impairment deficit	3 020 210	-
Debt impairment	94 139	-
Movements in provisions	173 313	806 672
Other non-cash items	(36 566)	(93 340)
Changes in working capital:		
Operating lease asset	(47 112)	-
Other receivables	(118 896)	(129 270)
Consumer debtors	(689 617)	-
Trade and other payables	2 543 792	3 971 012
VAT	(2 900 561)	(3 051 044)
Unspent conditional grants and receipts	6 909 653	8 886 763
	41 511 172	**22 974 235**

18. Commitments

Authorised capital expenditure

Approved and contracted for:		
• Infrastructure	26 773 189	17 475 594
Approved but not yet contracted for:		
• Infrastructure	12 875 292	21 187 611

This committed expenditure relates to Infrastructure and will be financed by Government grants.

19. Section 45 (2) of SCM Regulations

Transactions with close member of family	Amount Paid
MJ Contractor (Owned by J. Mdubeki)	90 977
FAKSIN CC (Owned by S Ndelu)	11 000
	101 977

J. Mdubeki is related to T. Mdubeki who is employed as HR Manager for the Municipality.
S. Ndelu is related to N. Ndelu who is employed as Administration Officer for the Municipality.

Figures in Rand	2010	2009

20. Unauthorised expenditure

Opening balance	8 152 039	862 471
Unauthorised expenditure current year	2 404 501	7 289 568
Less: Amounts condoned	(5 773 036)	-
	4 783 504	**8 152 039**

Incident
During the year, the Municipality's budget was exceeded by R2 404 501 which relates to the impairment of assets.

Action
The Municipality will take impairment into account when budgeting.

21. Fruitless and wasteful expenditure

Opening balance	162 881	10 500
Current year expenditure	118 150	152 381
Less: Amounts condoned	(162 881)	-
	118 150	**162 881**

Incident
During the year, the Municipality incurred expenditure amounting to R650 relating to interest on a credit card that was not in use.
Action
The expenditure will be tabled to council for condonment.

Incident
The municipality incurred expenditure amounting to R 117 500 relating to an HR Policy that was not implemented.
Action
The expenditure will be tabled to council for condonement.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

22. Irregular expenditure

Opening balance	6 179 384	2 926 300
Add: Irregular Expenditure - current year	4 558 688	3 253 084
Less: Amounts condoned	(5 842 856)	-
	4 895 216	**6 179 384**

Details of irregular expenditure – current year

Incident	Action	
The Municipality incurred irregular expenditure amounting to R1 677 646 as a result of no competitive bidding process being followed.	The matter will be tabled before Council for condonment.	1 677 646
The municipality incurred expenditure amounting to R 2 881 042 as a result of employees not having valid employment and performance contracts .	The matter will be tabled before Council for condonment.	2 881 042
		4 558 688

23. Retirement Benefit Information

The Municipality's employees are members of the following Benefit Schemes. Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan). Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan. Because the plan exposes the participating entities to acturial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan per Exposure Draft No. 49.

24. Prior year adjustments

Adjustments for assets		
Land and buildings	-	(194 399)
Community assets	-	(206 626)
Non Residential Dwellings	(1 541 548)	-
Access roads	-	(1 078 157)
	(1 541 548)	**(1 479 182)**
Adjustment for accrued interest		
Accrued interest from prior years not reversed	-	(295 833)
Adjustment for prior year errors		
Vat output incorrectly accounted for in prior years	-	1 147 205
Correction of error on Creditors General ledger	(732 766)	-
Pension fund accrual for prior years not reversed.	-	252 587
	(732 766)	**1 399 792**
Adjustment for provision for doubtful debts		
Doubtful debts provision not raised in the prior year	-	(1 330 292)
Reallocation of balance	93 340	-
	93 340	**(1 330 292)**
Adjustment for prior year cheques		
Reversal of prior years stale cheques	-	(86 031)
Correction of difference between current year creditors age analysis and ledger	244 314	-

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
24. Prior year adjustments (continued)		
Prior year accrual not reversed	(51 969)	-
	192 345	**(86 031)**